Earned Income Tax Credit Due Diligence

Know the Law Ask the Right Questions Get All the Facts

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What is EITC Due Diligence

- EITC error rate is 23-28%
- 70% of EITC returns are prepared by paid preparers
- Congress enacted due diligence requirements in response to EITC error rate
- Requires paid preparers to take extra steps to ensure correct EITC claims





EITC Due Diligence

- Internal Revenue Code §6695(g)
- Requirements
 - 1. Completion of eligibility checklist
 - 2. Computation of the credit
 - 3. Records retention
 - Knowledge requirement
 90% of penalties assessed for failure to comply with this area



Common Errors

More than 60% of all EITC errors are from:

- 1. Claiming a child who does not meet the age, relationship or residency requirement
- 2. Filing as single or head of household when married
- 3. Under or over-reporting income



Best Practices for Applying EITC Due Diligence in your Practice

- Know the law
- Ask the right questions
- · Get all the facts
- Document as you go



Know the Law

- Don't rely on software alone
- Explain the law to your clients
- Evaluate the information received
- Use resources available when questions come up



Ask the Right Questions

- Conduct a thorough interview
- Ask open ended questions
- Phrase questions in terms your clients understand
- Ask questions of each client, each child, every year



Ask the Right Questions

Determine if a child is a qualifying child

- Determine residency and household living arrangements
- Ensure your client meets the new age requirement or exception
- Secure enough information to ensure your client meets special requirements of certain relationships



Ask the Right Questions

Determine correct filing status

- Don't expect your clients to understand the tax definitions of head of household or "considered unmarried"
- Take special note when filing status changes from one year to the next
- Use Form 886-H-HOH



Ask the Right Questions

- Ensure income is reported correctly
 - Consider reasonableness of known income
 - Be alert to questionable income reporting forms (Forms W-2 and 1099)
 - Follow up on Schedules C with rounded numbers for income/expenses and/or no expenses
 - Look out for questionable situations where the income maximizes the EITC credit
- Get all the facts



Document as You Go

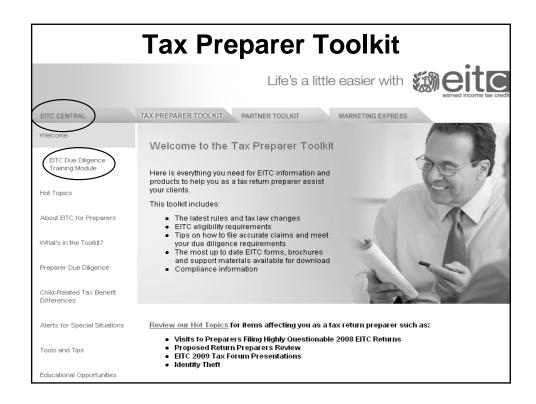
- Document any additional questions you raised and your client's responses
- Maintain all clients' records in a secure environment

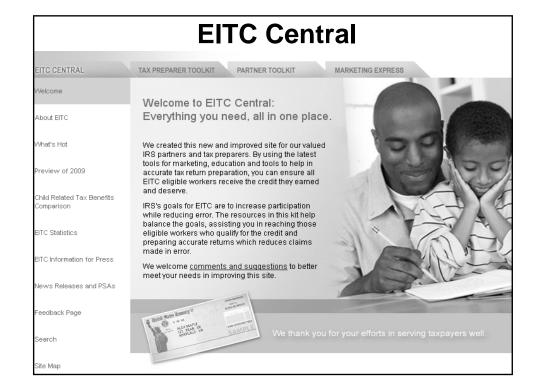


IRS Resources

- EITC Preparer Toolkit
 - Search "toolkit", select "EITC Toolkit for Tax Return Preparers"
 - EITC Central tab
 - EITC Due Diligence Training Module
 - Hot Topics







EITC Due Diligence Training Module | Comparison | Compar

Summary

- Know the law
- Ask the right questions
- Get all the facts
- Document as you go

